See letter 7/20/31
~~TENTATIVE - SUBJECT TO CORRECTION~~

333.-C-2
Final minutes
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~~CONFIDENTIAL~~

MINUTES OF MEETING OF THE OPEN MARKET POLICY CONFERENCE
HELD AT THE OFFICES OF THE FEDERAL RESERVE BOARD
WASHINGTON, D. C., APRIL 29, 1931.

The meeting convened at 2:30 o'clock, there being present the following:

Governors Young, Norris, Fancher, Seay, Black, Geery,
McDougal, Martin, Talley, Calkins,
and Harrison, Chairman.
Deputy Governor Worthington.

The chairman presented the secretary's report of open market operations since the last meeting of the conference on January 21, 1931. After consideration, it was

VOTED that the report be received and placed on file.

The chairman then stated that the attached report of the chairman of the conference, which had previously been read during the meeting of the governors' conference, was before the open market policy conference for consideration.

There was a long discussion of the report by the various members of the conference with particular reference to the present gold trends and the possibility of making the gold standard work more effectively. It was pointed out that in view of the present favorable trade balance of the United States, amounting in recent years to about $500,000,000 a year, the only way in which that trade balance could now be paid for was by the shipment of gold since the foreign bond market in this country was practically closed to any new issues. As indicated in the report of the chairman, this country has received over $400,000,000 of gold in the last fifteen months. This gold, however, has not in any way reflected itself in the expansion of member bank loans and investments but rather has been utilized to reduce the amount of Federal reserve earning assets. To that extent it may be said that the normal effects of the import of this volume of gold have been nullified.

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The question which was discussed by the conference was whether there was any appropriate way in which the Federal Reserve System could take action in order that any further gold imports will have their normal and natural effect upon the loans and investments of member banks.

"Governor Harrison pointed out that this was one of the reasons which had prompted the Federal Reserve Bank of New York in recent weeks to reduce its bill rates, hoping that by that action it would be possible to maintain or even increase the System's bill portfolio in spite of the fact that gold is still coming into the country. He said that to have done nothing with the bill rates would very likely have resulted in a rapid diminution of the bill portfolio of the System as gold came in, not only thereby nullifying gold imports but liquidating the System's earning assets by a substitution of gold, of which we already have a plethora. Governor Harrison then said that it was the purpose of the New York bank, if necessary, to reduce its bill rate as low as one per cent in the hope of accomplishing its objectives of maintaining or even increasing the bill portfolio in the face of gold imports; that it was likely that next week or the following week he would recommend a reduction in the discount rate. The chief purpose of this program was, he stated, not only to tend to reduce the amount of gold imports or to make those imports that actually take place more effective, but also, by its effect upon the short time money market, ultimately to make credit, of which there is now plenty, especially in the big centers, more active and more widely distributed. It was felt that this policy sooner or later would necessarily, because of its effect upon the short time money rates, encourage banks and depositors in banks, in spite of their present liquidity, to employ their money, which now is becoming relatively so unprofitable. More specifically, he said that he hoped that this policy might encourage the New York Clearing House banks further to reduce interest rates on deposits.

"In this connection, it seemed to be the general sentiment of the conference that one of the difficulties with the banking situation today is the consequence of the competition of banks throughout the country for increasing deposits at unjustifiably high rates of interest, and that any action which might encourage a more general reduction in those interest rates could not but be helpful to the banking situation as a whole. Governor Harrison then said that if the policy which the New York bank has adopted is to become completely effective it requires System cooperation both in the matter of rates and in the matter of open market purchases of government securities for with bill rates as low as they are, in the event that the System's bill portfolio runs off, even after rates may have been reduced to one per cent, the only effective instrument which the System has left to aid in maintaining the total volume of its credit outstanding is the purchase of government securities. He, therefore, recommended that the conference authorize the executive committee of the conference, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of government securities. In making this recommendation, he pointed out that it was not/the intention to purchase government securities immediately but rather to attempt to carry out the policy, first, through bill rates, second, through the reduction in discount rate, and then, if necessary, to resort to the purchase of government securities."

Governor Meyer was then invited to join the conference, and each member of the conference, in turn, discussed this proposal.

"Governor Norris was of the opinion that the proposed policy might not accomplish any great amount of good; that the System was in a strong position; that there was little or no danger of speculation; that he saw no probability of

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any bad results from the policy; and that in those circumstances he was ready to participate in the policy and to contribute by recommending a reduction in the Philadelphia bank rate to three per cent. His chief misgiving about the adoption of the policy was the danger of a slowness in the reversal of the policy when that might become necessary. This was a danger to which all the members of the conference referred and which Governor Meyer stated he did not believe would be existent in the present circumstances, especially in view of the fact that the country would look upon a reversal of the policy as an evidence that the turn had come in the business depression.

Governor Young stated that they are even now following the New York reductions in bill rates and in the past have followed in the reduction of discount rates; that he believes it is important to have harmony in the System; and that if New York reduces its discount rate to 1 1/2 per cent, he will recommend the same rate in Boston. He believes that it is inadvisable to buy more government securities at the moment but that even so he would, of course, be willing to buy government securities at the present time from any member bank that needed accommodation in that fashion. He felt that while the program might be right or wrong, the only thing to do, in view of all the circumstances discussed by the conference, is to go through with it.

Governor Fancher stated that the economic situation throughout the world has seriously changed in the past year and is perhaps more serious than ever; the gold flow is most important; and he said that he was willing to go along with any program designed to check it. He also agreed that the System can lend its efforts to make money so cheap as to put it to work. He stated that it was probable that Cleveland would not reduce its discount rate but that the System cannot afford to go along drifting in this extreme situation, and that he was, therefore, in favor of the recommended program.

Governor Seay stated that he had no great degree of confidence that the proposed policy will accomplish anything very definite or that business recovery is dependent upon any further ease in credit. He intimated that it was possible that a further easing program might be construed as a move in the wrong direction and as a policy of desperation. He did feel, however, that any move that would force banks to reduce rates which they pay on deposits is a most important one, and that if the proposed program fails in accomplishing that, the program itself would fail. He stated that if New York reduces its rate to 1 1/2 per cent, he would recommend a reduction in the Richmond rate to three per cent. He felt, therefore, that while the program may or may not accomplish good, it would probably have very little risks attached to it, and that as far as possible the Richmond bank would follow the program.

Governor Black stated that, in his opinion, the present situation is extreme and that it was important that we do something; that there were only three courses before the System: (1) that it should follow a policy of further pressure by going up in its rates, (2) that we should maintain the status quo, or (3) that we should make further ease. He hopes and believes that the program recommended by Governor Harrison will be effective, at least in part; that it would tend to make the gold which we have more useful; and that it would tend to drive some short time money to work, which is what the situation now needs. He questions whether the Clearing House banks in New York will further reduce their rates, but that even so that should not deter us in the adoption of the program, which he is prepared to follow. He said that the Atlanta bank would follow on bill rate reductions but is not sure what the bank would do about discount rate, but that he is determined to have the Atlanta bank follow the program as far as it can.

Governor McDougal stated that the gold problem, as discussed by the conference, is an impressive one and should be corrected, if possible; that that is the big question before us. The banking situation is also an outstanding problem; and that while he thinks money rates are now cheap enough and does not see how cheaper rates will stimulate business, nevertheless it may serve to move gold elsewhere. In his judgment, there is no danger in the stock market but fears that low or lower rates may lead banks to take imprudent steps. He was not in favor of buying governments at the moment but that if lower discount rates were established in the Eastern districts, Chicago would probably have to follow.

Governor Martin said that there is no historical precedent for the present situation, and that it would, therefore, be difficult to predict the results of the proposed policy. He saw some objections to it but, on the whole, the majority of reasons were in favor of it. What objections there are he felt could be overcome if we were prepared to go quickly enough to reversal. He was in favor of trying the experiment and said that St. Louis would follow with reductions in the bill rates and probably with the discount rate.

Governor Geery was somewhat at a loss to foresee the precise results of the proposed policy but was willing to give it a fair trial at this time and was willing to vote for it.

Governor Talley stated that he still has confidence that gold will finally express itself. It always has in the past sooner or later, and he said we are now at a practical minimum of discounts and have only $180,000,000 of bills to be absorbed. If gold comes beyond that point, it will certainly express itself in the country's credit structure. The proposed program would bring this event nearer. He also agreed that the policy would tend to shove short time funds outside of New York, though probably not into remote country districts. In his judgment, there was some question whether it would be desirable to have the New York banks reduce their interest rates further; that it was more desirable, in his mind, for those banks to send money abroad into short commercial credits. While somewhat apprehensive about attempting the policy, he saw little ammunition left, and he was in favor of trying it.

Deputy Governor Worthington said that while the Kansas City bank has felt for some time that money rates have been too low and that there would be no revival in business until rates go up, nevertheless he sees no objection to the program and that it was necessary, in his judgment, now to make some effort to overcome present difficulties. He sees no harm and possible good in the program and that Kansas City would always cooperate with any plan approved by the conference.

Governor Calkins said that he agreed with the desirability of harmonious action in the System but questioned how harmonious it would be unless a program is agreed to without reluctance. He is somewhat skeptical of the proposed program because of the fact that the present situation was so lacking in precedents that it is not possible to compare it with the past. Furthermore, conditions are largely psychological and causes of it go away back to the war at least. He disagrees with the theory that small reductions in bill rates and discount rates would stimulate credit or that it is possible to make the gold standard work in any orthodox fashion when two nations have most of the gold. He referred to the fact that the Federal Reserve System has already contributed in a large measure to the mobility of credit because of the telegraphic transfer system, and that indeed this system contributed largely to the inflation during 1928 and 1929. The big question, in his mind, is whether we would be prepared to correct or reverse the policy if it proves to be wrong, but that San Francisco will be prepared to follow and participate in the program, even though not with the wholehearted acquiescence which he thinks so advisable.

Governors Meyer and Harrison then said that they did not have any fixed certainty of the outcome of the procedure but that it was one in which we had little, if any, volition since it would be forced upon us by the present gold movement sooner or later, in any event.

After further general discussion and upon recommendation of Governor Harrison, the conference

VOTED that pending another meeting of the conference, as soon as that may be deemed necessary by the Federal Reserve Board or the members of the conference, the executive committee of the conference should be authorized, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of government securities.

Chairman.